

Research Bulletin

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Developing Profitable Software Support Pricing Strategies

Software product vendors are facing severe pricing pressure in the open services environment. However, with users still reluctant to pay for software product support, vendors are hard pressed to develop profitable support pricing strategies.

Vendors can improve the profitability of their software product support pricing strategies by considering action in three key areas:

- Move to cost based pricing
- Establish thresholds for chargeable support
- Simplify pricing structures

Moving to Cost Based Pricing

A recent INPUT survey showed that a significant number of midrange and networked systems users are dissatisfied with product-related pricing for systems software support. Low value-for-money ratings were backed up by supporting user comments which pinpointed the unacceptability of support costs linked to

product price rather than the cost of delivering the service.

A popular suggestion for more equitable pricing arrangements was to link service to the number of users. Some vendors, like Hewlett-Packard, already include user-based pricing in their support offerings: their premium Personalised System Support service charges are banded according to user population: 1 to 32, 33 to 128 and more than 128 users.

Some of the recent service offerings from Digital also suggest an increasing emphasis on user-based support pricing.

This reflects the growing need for vendors to move away from supporting products, towards the support of people in the workplace. The value-added shift from the repair-orientated approach, to software product problem management, is the next great challenge for customer services vendors, a shift which has to be communicated to customers by means of new, user-focused contracts and pricing mechanisms.

Establishing Thresholds for Non-Inclusive Pricing

A key trend signalled at the PC end of the customer services market is the move away from inclusive systems support. Microsoft, Lotus, Borland and Wordperfect have all recently reversed conventional wisdom by adopting chargeable support beyond certain baselines. The principal benefit for these vendors is that they can sell low cost software products without the high overheads of supporting an increasingly naive user base.

As a natural consequence, PC vendors look to be moving towards non-inclusive support arrangements. Dell are expected to introduce some form of charging for customer support within the next two months.

Vendors in the midrange and open systems markets are also looking closely at support pricing thresholds. However, these vendors are advised to exercise caution. Exhibit 1 shows findings from a recent INPUT survey which indicate that open systems users still consider inclusive support to be highly important. By contrast, users consider tailored contract conditions (which can in part be interpreted as "pay for what you want") to be far less important.

Some vendors in the open services market have already started to plan ahead for unbundling software support and revising pricing thresholds. Compaq, who are currently leading the field in the PC client/server market,

believe that the time has come for support to cease being a loss-leading service. They are currently considering a number of new support schemes including the introduction of "pay for priority" telephone support.

Open services vendors need to establish pricing thresholds in line with user requirements, and take specific actions that are right for them rather than simply allowing themselves to ride the trend for non-inclusive support.

Simplifying Pricing Structures

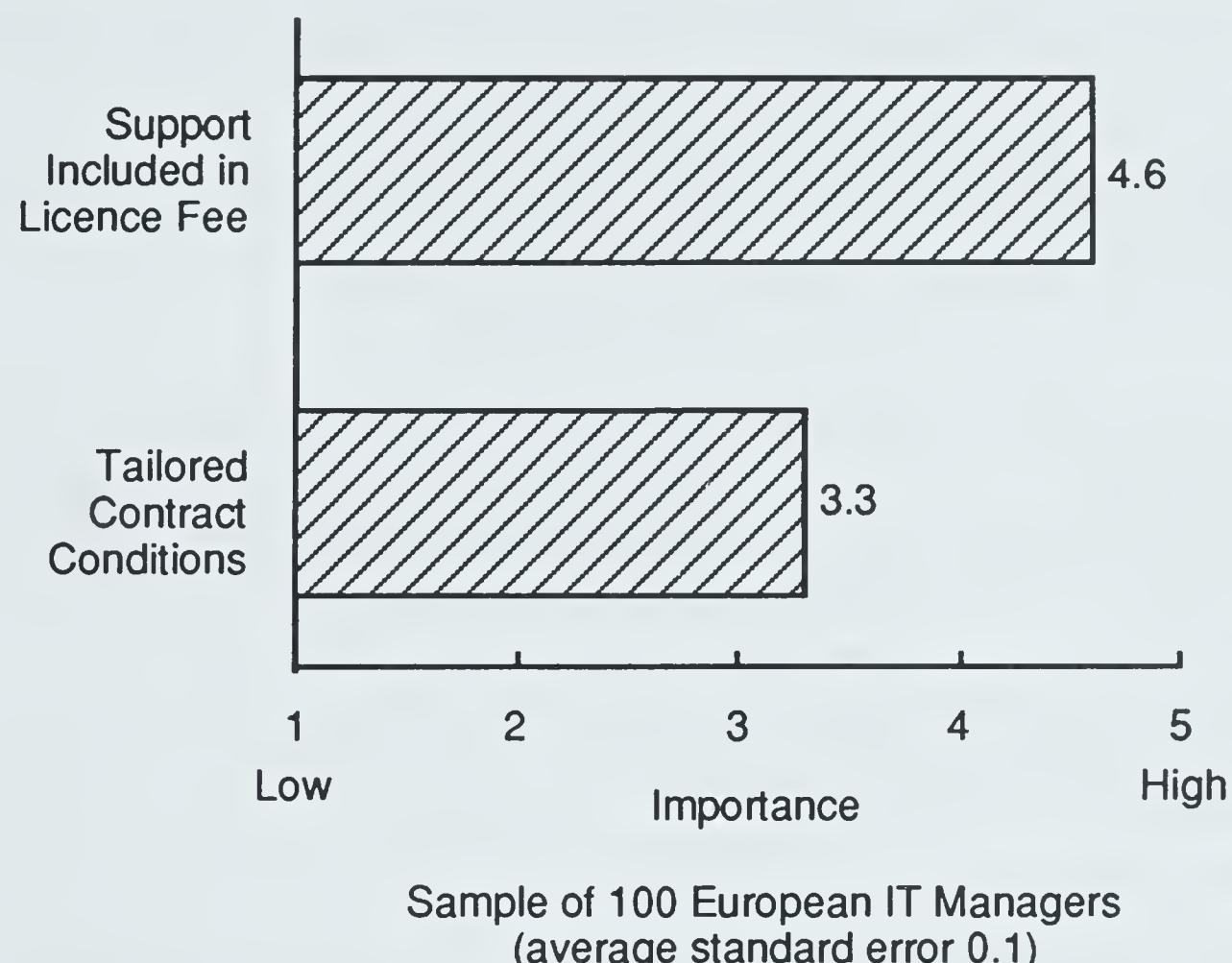
Most customer services vendors operate complex pricing structures which reflect the multiplicity of service offerings in their portfolio. However, complex pricing mechanisms are invariably detrimental to both users and vendors alike, involving significant overheads in terms of accounting and reconciliation.

In an attempt to minimise administrative and delivery overheads, and provide simpler service and support to its customers, Sun Microsystems Computer Corporation (Sun) launched its SunSpectrumSM programme in May 1993. Under SunSpectrumSM, services were reduced to only four levels:

- Platinum, for the most important mission-critical systems
- Gold, for important but not mission-critical systems
- Silver, a standard level service
- Bronze, a low cost support package

Exhibit 1

Importance of Service Features for Inclusion in Software Support Contract



Source: INPUT

By rationalising its service programme, and hence its pricing structure, Sun has made the delivery of services across a wide range of customer needs more efficient and cost-effective. Sun believes this pricing simplification has been key to its services development.

The indicators are that Sun's pricing simplification initiative will soon be emulated by other leading service suppliers. For example, recent changes made by Digital to their service offerings suggest that pricing simplification is also on their agenda.

Pricing Strategies Signal Wider Change

Developing profitable product support pricing strategies is fundamental to vendors' service operations. Underlying the need to improve pricing strategies lies the much greater movement of re-orientating service delivery towards the real needs of the user.

If vendors are to make the transition from product-based service to user-based service, they must aim to simplify not only their pricing strategies but the entire scope of their service portfolios.



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- Software and Services Vendors
- U.S. Federal Government
 - Procurement Plans (PAR)
 - Forecasts
 - Awards (FAIT)
- Commercial Application (LEADS)

CUSTOM PROJECTS

For Vendors—analyze:

- Market strategies and tactics
- Product/service opportunities
- Customer satisfaction levels
- Competitive positioning
- Acquisition targets

For Buyers—evaluate:

- Specific vendor capabilities
- Outsourcing options
- Systems plans
- Peer position

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